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Two Perspectives: Greece & China Turn the World Upside Down
&
The Talent Hypocrisy Syndrome

PART I: GREECE AND CHINA TURN THE WORLD UPSIDE DOWN

Greek Vote – Ouch!

The overwhelming Greek referendum "no" vote on its debt payback to eurozone creditors has opened a new darker chapter in European Union (EU) history. After two failed bailouts totaling $266 billion and six years of economic austerity, Greek Prime Minister Alexis Tsipras' fiery television interviews in which he denounced the European creditors as "blackmailers" helped to galvanize this negative response.

Will the Greek contagion now spread as Greece risks default, abandoning the Euro, and its EU membership? The answers hang in abeyance as Greece must agree to even more draconian bailout terms than those the referendum so resoundingly rejected.

There is plenty of blame to share on both sides. Lenders gave Greece too much money based on the risks inherent in a weak national economy and failed to monitor how these funds were spent. On the other hand, the Greeks have shown little interest in reforming the nation's widespread acceptance of tax evasion and government corruption or in diversifying an economy in which government is the prime employer and tourism its top industry.

This is only the most recent crisis as Greece and its creditors insist on playing Russian roulette. At the eleventh hour fifty-eighth minute before GREXIT, the Greeks offered a string of concessions previously sought by the EU. At the fifty-ninth minute the EU offered a bailout that includes a large-scale takeover of Greek assets to pay off the debt. The Greek parliament must agree to these terms. But if passed, will the Greeks implement these reforms? They have been down this road before and nothing really changed, thus precipitating a bigger crisis. Meanwhile, deep ideological divides among EU members threaten the cohesion of this coalition.

The China "Syndrome"

While the Greek economic implosion continues to dominate world news, the Chinese stock-market bubble is also becoming a source of concern. On June 12, 2015, China's equity market peaked, doubling in size in just one year. Recently China's stock market has nosedived. On July 9, 2015, over $3 trillion in value vanished. This is more than six times the Greek foreign debt or equivalent to 14 years of Greece's GDP. While massive governmental intervention has led to a minor market uptick, its future course is uncertain.

Frederick Neumann, co-director of Asian economic research at HSBC, has provided this assessment of events in China: "While turmoil in Greece has added to investor jitters of late, China's stock market slide could prove ultimately more damaging for the world economy." I am reminded of the 1979 movie, "The China Syndrome," as the Chinese government employs more and more desperate measures to stop this epic sell-off. In the film, Jack Lemmon, the manager of a nuclear power plant, desperately tries to stop its core from melting down into the earth.

How might this end? When any nation's equity markets are based largely upon speculative euphoria, they cannot be indefinitely propped up solely by the government's monetary policies and direct intervention. This has never worked in the past twenty years.

The stock market rout is but one in a growing string of crises in China today. The real-estate bubble persists with millions of apartments sitting empty in zombie buildings. Other challenges include major environmental problems, widespread labor unrest, endemic government corruption, and rural/urban imbalances. Are dark days ahead for China's state capitalist economy? Will it muddle through or will a real collapse in confidence usher in regime change?

PART II: THE TALENT HYPOCRISY SYNDROME

In June 2015, the U.S. unemployment rate fell to 5.3 percent. This is the lowest figure since April 2008. But the underlying numbers take away any cause for celebration:

- Number of people employed was unchanged
- Available number of U.S. workers declined by 432,000
- Labor participation rate (people working or looking for employment) fell to 63.6% ─ the lowest since 1977

Currently 92,380,000 people are not in the U.S. workforce. While 50 million are retirees, prime-age workers (aged 25-54) are a growing proportion of this rising figure.

Why are so many Americans staying on the employment sidelines? A July 8 headline in the *Chicago Tribune* for an Associated Press article says it all: "Job Openings Stay High, but Hiring Falters: Employers May Be Struggling to Find Skilled Workers." In a 2015 Wells Fargo Small Business Survey, almost 60 percent of U.S. small business owners reported that they are having difficulty finding skilled applicants. The Conference Board's study, "From Not Enough Jobs to Not Enough People," (May 2015) details significant skills shortages as baby-boomer retirements escalate. A JPMorgan Chase study, "New Skills at Work," found that only 54 percent of Chicago-area workers have the qualifications for middle-skill jobs or better.

What about the next generation of workers? While high school graduation rates have risen, the same cannot be said for the educational attainments of the graduates. The scores of 12th graders on the NAEP exams (National Assessment of Educational Progress) have basically remained flat from 2005 to 2013 (the latest year this test was administered). The 2013 results are hardly encouraging:

Math	Reading
35% Below Basic	25% Below Basic
39% Basic	37% Basic
23% Proficient	32% Proficient
3% Advanced	5% Advanced

Between 2015 and 2020, 60 million baby boomers will retire. How many of these graduating high school seniors will be able to fill their shoes? Even if GREXIT or a China meltdown slows the U.S. economy, most of these jobs still will need to be filled with an appropriately skilled person just to keep day-to-day America running.

<u>The Global Talent Picture</u>

The latest PricewaterhouseCoopers survey of CEOs in 77 countries reported that 78 percent of these executives ranked skills shortages as the greatest threat to their companies; this was a 10 percent jump from the 2014 results. Moreover, 81 percent of the CEOs said their firms were looking for a much broader range of skills than previously.

Deloitte's *2015 Global Human Capital Trends* report surveyed and interviewed 3,300 business and HR executives from 106 nations, and 85 percent rated the talent challenge as "very important" or "important," a 21 percent increase from 2014 results. Yet only 28 percent of those surveyed said their businesses were prepared to deal with this talent deficit.

These surveys clearly show that the global nature of the skills-jobs disconnect makes it very unlikely that American businesses can find the skilled workers they need simply by recruiting them from abroad. In general, it seems that larger family-owned and employee-owned businesses, partnerships, non-profits and leading edge technology-driven companies are recognizing that they need to invest in education and training to meet their talent needs. On the other hand, many publicly traded for-profit companies are still relying on poaching and H-1B visas to obtain skilled workers and are cutting their training and development expenditures.

What is triggering this talent hypocrisy syndrome among such companies? On the one hand, they complain about skilled worker shortages and trumpet the value of their human capital; but on the other hand, they don't "walk the talk." At least in part, the Federal Reserve's ultra-low interest rate policy has unintentionally encouraged short-term talent fixes. It has helped fuel the current $2.15 trillion merger and acquisition surge. Businesses are using M&A partially to buy up other company's skilled talent and fill their vacant positions. Many companies are borrowing at low rates to finance stock buy-backs which may reach an all-time high of $1 trillion in 2015. This tactic along with increased dividend payments has kept stock prices high and has pumped up top executive salaries and bonuses that also are on track to reach a record high this year.

Janet Yellen continues to signal that the Federal Reserve is likely to raise interest rates later this year. Their Quantitative Easing Programs I, II, and III were designed to push increasing investment in the U.S. economy. Instead, businesses have mainly used cheap money to drive up short-term profits, not to make long-term physical and human capital investments.

Once the cheap money spigot is turned off, perhaps business leaders of large publicly traded corporations will move beyond only paying lip-service to the importance of human capital to actually making substantial investments in education and training solutions that build the skilled talent needed for today and tomorrow. Investing in human capital can increase employee retention and drive higher levels of worker performance, thus raising an organization's productivity and profits. U.S. economic growth will be significantly enhanced when a higher proportion of the U.S. population participates in its labor market and a restructured education-to-employment system equips these American workers with the skills required by today's high-tech workplaces.

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